



ANNUAL REPORT 1965
COMPUTER USAGE COMPANY, INC.



COMPUTER USAGE COMPANY, INC.

BOARD OF DIRECTORS

Cuthbert C. Hurd, *Chairman*
Elmer C. Kubie
Walter B. Nelson
William M. Sloane

OFFICERS

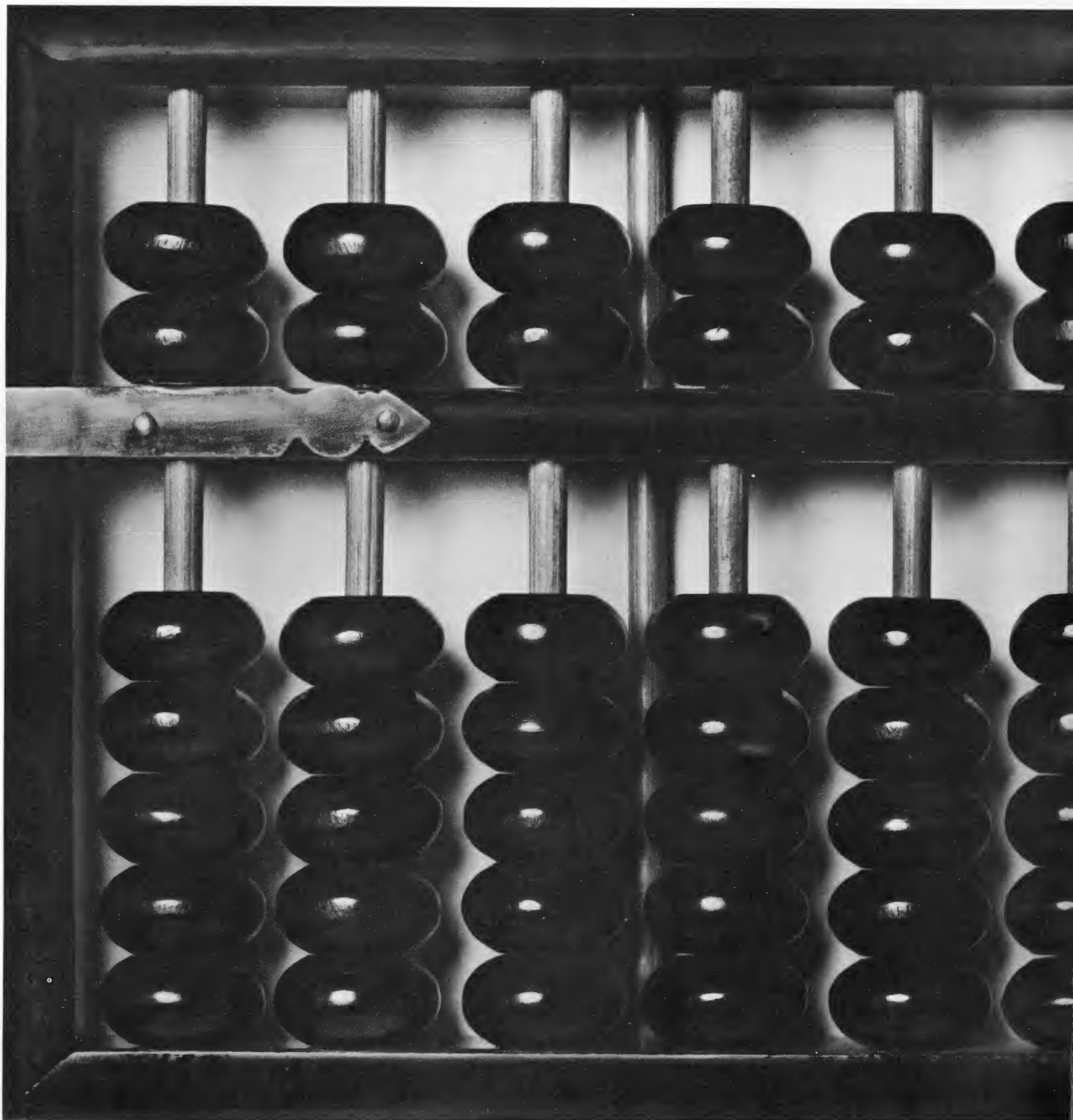
Elmer C. Kubie, *President and Treasurer*
William M. Sloane, *Secretary*
Walter M. Johnson III, *Controller*
Carmel J. Mecca, *Assistant Secretary*
Lawrence Berman, *Assistant Controller*

COMPUTER USAGE DEVELOPMENT CORPORATION

Walter B. Nelson, *Executive Vice President*
Robert H. Glaser, *Vice President*
Liston Tatum, *Vice President*
George J. Vosatka, *Vice President*

COMPUTER USAGE EDUCATION, INC.

Ascher Opler, *Executive Director*
Charles E. Brunn, *Administrative Director*





ANNUAL REPORT 1965
COMPUTER USAGE COMPANY, INC.
344 Main Street Mount Kisco, N. Y. 10549

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ANNUAL REPORT HIGHLIGHTS

	<u>1965</u>	<u>1964</u>
Income from Services	\$6,033,403	\$4,500,496
Income before Federal Income Taxes	664,800	469,079
Net Income	344,800	234,079
Earnings per Share*	.53	.37
Net Assets	1,560,956	1,098,573
Net Assets per Share	2.33	1.71
Employees	397	288

**Based on average number of shares outstanding in each year as adjusted for 5-for-2 stock split in January, 1965.*

TO OUR STOCKHOLDERS:

We take great pleasure in reporting on the progress of your Company during its tenth fiscal year. We report particularly on personnel growth and development, new corporate organization, and financial growth.

In the rapidly growing data processing field, well educated and experienced analysts and programmers are in increasing demand. CUC continues to strengthen its staff. We have increased our personnel during the year by 38 percent. Moreover, as we grow we pay increasing attention to management development, and consequently have been able to make the majority of key appointments in our new facilities and subsidiaries from within CUC. However, we continue to seek exceptional individuals from the outside, and have employed several during the past year.

As reported to you earlier, CUC was reorganized on October 1, 1965, to provide maximum flexibility for continued growth and expansion of services. Each new operating subsidiary was organized in a manner which will best serve its purpose.

Computer Usage Education, Inc. was established to apply our capabilities to education in the use of computers. The education and training required to satisfy the demand for competent data processing personnel is substantial. The breadth of experience and knowledge which CUC has in the data processing field uniquely qualifies us to enter this field of education. For example, *Programming the IBM System 360*, a book written by members of our staff, will be published early next year by John Wiley, Inc. This book promises to become one of the most authoritative texts in our field. The activity of developing applications for data processing equipment, commonly known as "software development," shall be continued within Computer Usage Development Corp. We have recently opened a branch office for this subsidiary in Chicago and now have operating facilities in Philadelphia, Mt. Kisco and Baltimore as well. Of course, we have continued to expand our offices in New York, Washington, Boston, Houston, Los Angeles and San Francisco. (continued)

Again, we are delighted to report financial growth during the year ended September 30, 1965. Income from services increased 34% with an increase in net income of 47%.

Because of unusual starting expenses anticipated with the planned expansion of your Company's activities, we expect that the first half of our fiscal year 1966 may not show improvement in earnings compared to the first half of the fiscal year 1965. On the other hand, we have reason to anticipate significant returns from these activities during the second half of the year, and do expect that the full year's results will indicate continued improvement in both income from services and net income.

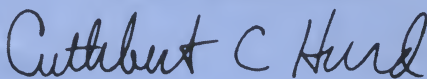
For ten years all of your Company's earnings have been reinvested to finance its continued growth. As a result, retained earnings reached \$866,797 at September 30, 1965. With this record of accomplishment in mind and with recognition of our future prospects, your Board of Directors established a dividend plan on November 12, 1965. This plan provides for payment of regular quarterly dividends of 5c per share so long as the affairs of your Company warrant doing so. December 10, 1965 was selected as the record date for the first quarterly dividend and January 5, 1966 as the first payment date.

Another year has passed during which we have received continued encouragement and cooperation from both employees and stockholders. We would like to express our gratitude to those who have contributed so much toward this record year for CUC. We are sure that we can count on continuance of this assistance so as to take full advantage of the future opportunities before us.

Very truly yours,



Elmer C. Kubie, *President*



Cuthbert C. Hurd, *Chairman*

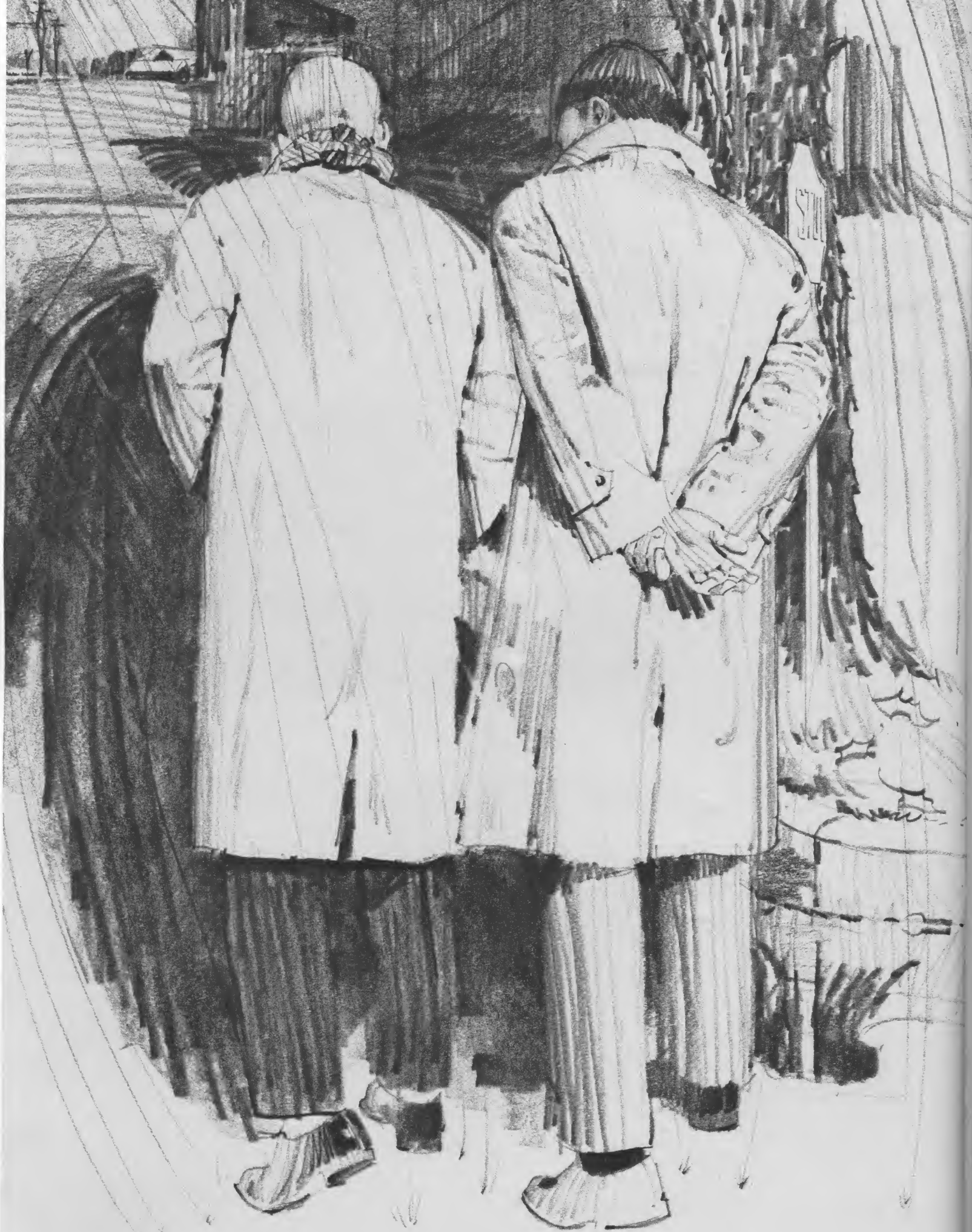
November 15, 1965

ANNUAL REPORT HIGHLIGHTS

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ORGANIZATION/HOW IT ALL BEGAN

It's easier to say how it began than when it began.

It began with a need and an idea.

It began on a wet day, with two men walking in the rain in Old Tappan, New Jersey.

It began in the morning, Washington's Birthday, February, 1955.

Or maybe the beginning dates back to the early 'Fifties, when two young men at IBM—Elmer Kubie and John Sheldon—discussed a critical problem. How would the future need for computer programming and analysis be met?

These two friends separated professionally. John Sheldon struck out on his own as an independent consultant. Elmer Kubie joined the General Electric Company.

But a phone call, early one February morning, brought them together again. It was John Sheldon, calling the Kubie home. He had something urgent to talk over. As soon as he arrived at the house, he came directly to the point: "Let's start our own company right now. I'll work in science; you manage the firm. 50-50. How about it?"

Elmer Kubie looked at him and said, "Let's take a walk."

Together, in the chilling light rain, they walked around the quiet, suburban block.

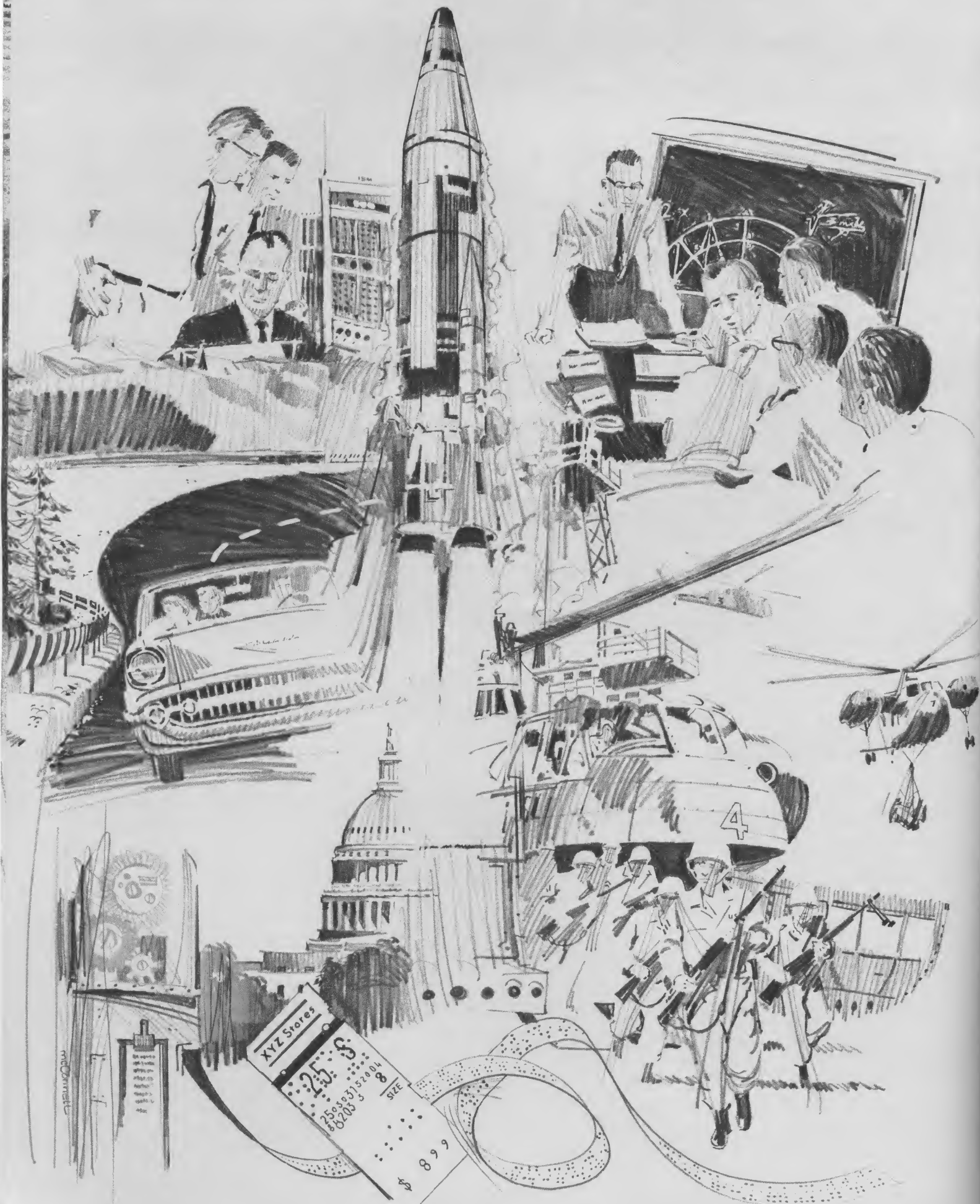
John Sheldon described the difficulties he was facing as a consultant because of the lack of programming capability to implement the applications he was concerned with. The answer: start a pure software service company.

They decided to walk to the train station and before John Sheldon got on the train for New York, Elmer Kubie told him he'd think about it and let him know in a few days.

Several days later he phoned to say he was prepared to start in the new venture and would resign from General Electric immediately.

Maybe that was the beginning. Or, maybe it was some weeks later, when the first staff members were hired. Or, the beginning might be placed in May, when a lease for mid-town Manhattan office space was negotiated.

It began at many times. But in 1955, a decade ago, Computer Usage Company was organized.



DEVELOPMENT/THE FIRST FIVE YEARS

The first five years were years of development. These were CUC's formative years, when the nature of the service was sharply defined, when the professional nucleus was formed. These first five critical years saw the fledgling company successfully undertake scientific and business data processing projects.

These were years of pioneering. Computer hardware was being delivered to eager users who had virtually no independent software service firms to turn to for assistance in systems analysis and programming.

Late in 1956, CUC undertook its first business data processing job. A large insurance firm wanted to test a new hypothesis concerning mortality experience. The new software firm, on a competitive bid, won the contract and delivered an analysis of data ahead of schedule and at lower cost than anticipated. The contract established a solid relationship with a valued client and the CUC reputation started growing.

A highway design task later challenged CUC. For a civil engineering firm CUC developed a set of generalized programs into which engineers could feed many alternatives. The programs resulted in cheaper, faster, and more accurate specifications for large complex construction projects.

During this period, the company developed an application in merchandise control for a retail chain. This project marked the entry of computer use for this purpose. With slight modification, these same computer based inventory control and sales analysis techniques are still being used today.

A government project, in connection with Federal cataloging of equipment and replacement components brought about a major milestone in the development of CUC. In 1959 the company's first branch office—Washington, D.C.—was opened.

CUC was deeply involved in systems work in its first five years. One significant project was the development of an early algebraic compiler for a major computer manufacturer.

In its fifth year—with over 70 employees and net assets of almost \$300,000—CUC made its first public stock offering. The decks were cleared for the five years of vigorous expansion to follow.



EXPANSION/A DECADE OF PROGRESS

The next five years in CUC's history would see unparalleled expansion. The single branch office at the close of CUC's development period would be joined by five others and three operating facilities at the close of the decade.

Assets would increase more than fivefold; net income would be almost 35 times as great for the tenth fiscal year as the fifth. Perhaps most significantly, through recruitment, rigorous selection and training, the CUC professional staff at the end of the first decade would be more than five times the size of the 1960 staff.

Behind this rapid and controlled growth lie many events.

Early in its second five years of operation, CUC extended its scope of operations. In connection with the Minute Man guidance system, CUC created a system for a West Coast electronics manufacturer that permitted storage and retrieval of masses of data concerning electronic missile components. This was CUC's first on-site West Coast job and led directly to the establishment of Western operations. In 1961, the Los Angeles office was opened.

In rapid succession, other major milestones were passed.

Dr. Cuthbert C. Hurd joined the company and was elected Chairman of the Board.

CUC was at work on one of the largest commercial contracts ever performed, a contract that established the company even more firmly as the leading supplier of scientific software. For a major oil company, CUC constructed a mathematical model of an oil reservoir that yielded rapid responses to various alternatives designed to achieve maximum yield per invested dollar.

CUC penetrated the vital San Francisco Bay Area through its only acquisition, purchasing Systems Analysis Corporation in Palo Alto, California.

In science, the advent of artificial earth satellites made the gathering of critical data feasible. CUC became involved in a large-scale computer program with multiple objectives. This comprehensive project is providing information on the Earth's surface geometry and gravitation field and yielded data essential for accurate prediction of satellite orbits and the trajectories of long-range ballistic missiles.

In its tenth fiscal year, CUC was selected to provide the software for a Japanese computer, the first time a foreign manufacturer ever selected an independent American software firm for such a task.

CUC analysts, in this year, authored a book, *Programming the IBM 360*, to share the knowledge gained in over 60 man-years experience with IBM's "third-generation" computer that is only now being delivered to users.

As a logical outgrowth of CUC's experience, a new education subsidiary was formed—Computer Usage Education Inc.

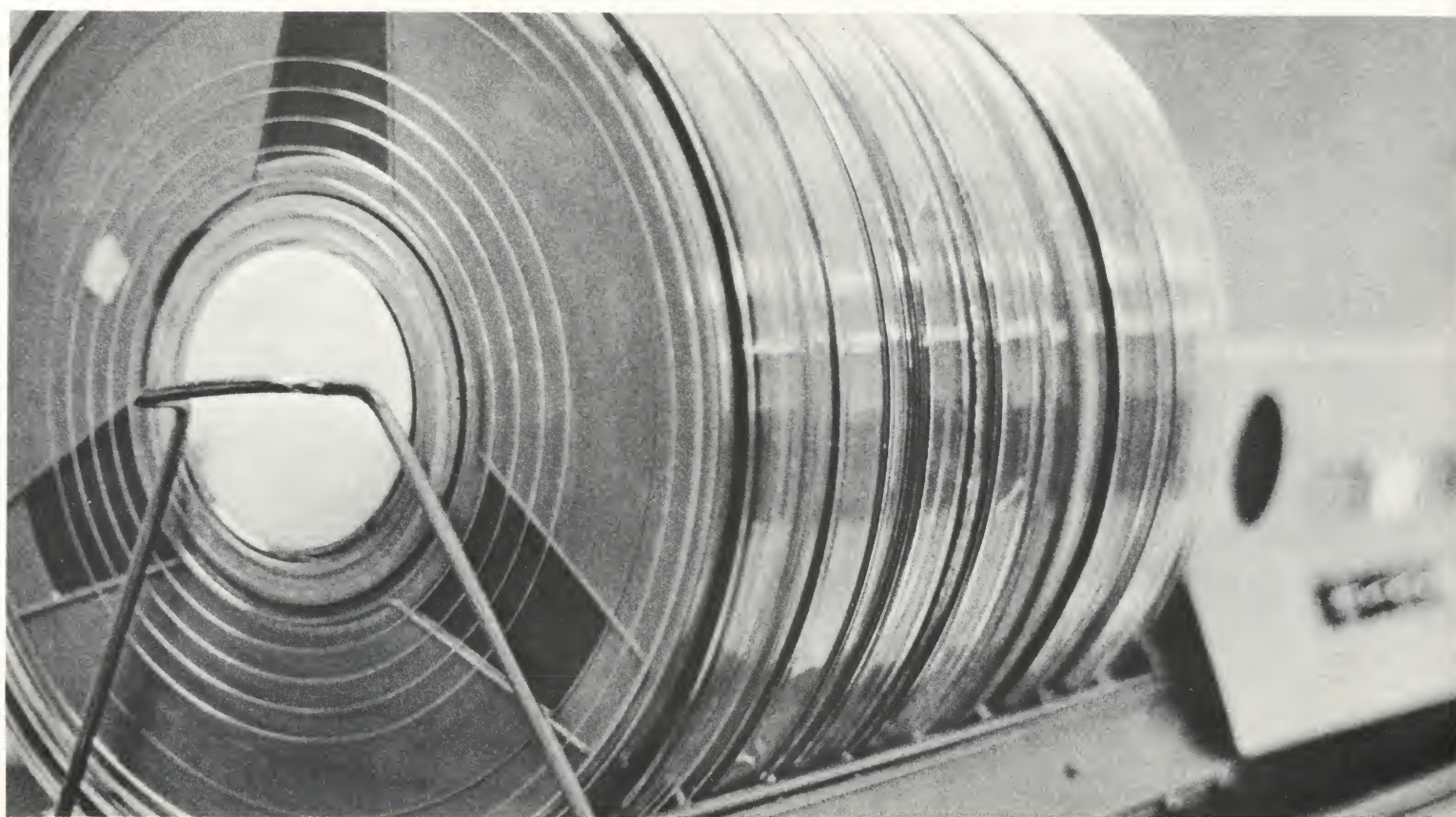
In recognition of the Decade of Progress and prospects for the coming years, CUC concluded its first ten years by initiating a quarterly dividend.

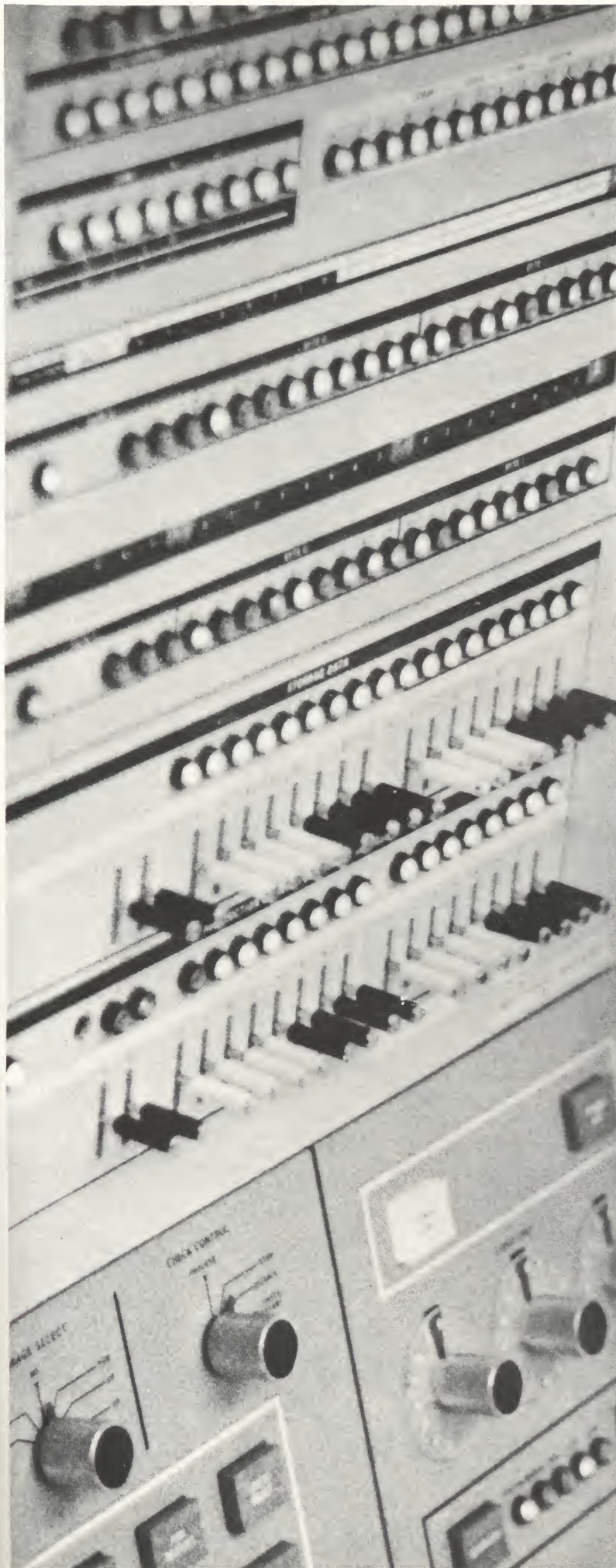
BUSINESS APPLICATIONS

Computer feasibility study
Sales forecasting
Information storage & retrieval
Programming of data processing systems
Business gaming
Systems & project management
Plant management & maintenance
Accounting

SCIENTIFIC APPLICATIONS

Astro-physics
Oil Reservoir simulation
Bio-statistical analysis
Civil engineering
Reactor physics
Geodesy
Infra-red mapping
Satellite tracking





SYSTEMS

Language development
 Debugging systems
 Simulation
 Compilers
 Command/control systems

REAL-TIME APPLICATIONS

Telecommunications
 Training simulators
 On-line display
 Air traffic control
 Submarine control
 Time-sharing



COMPUTER FACILITIES MANAGEMENT

Complete system design
 Computer selection
 Initial analysis and programming
 Debugging and installation
 Operation, maintenance and extension

COMPUTER TIME SALES

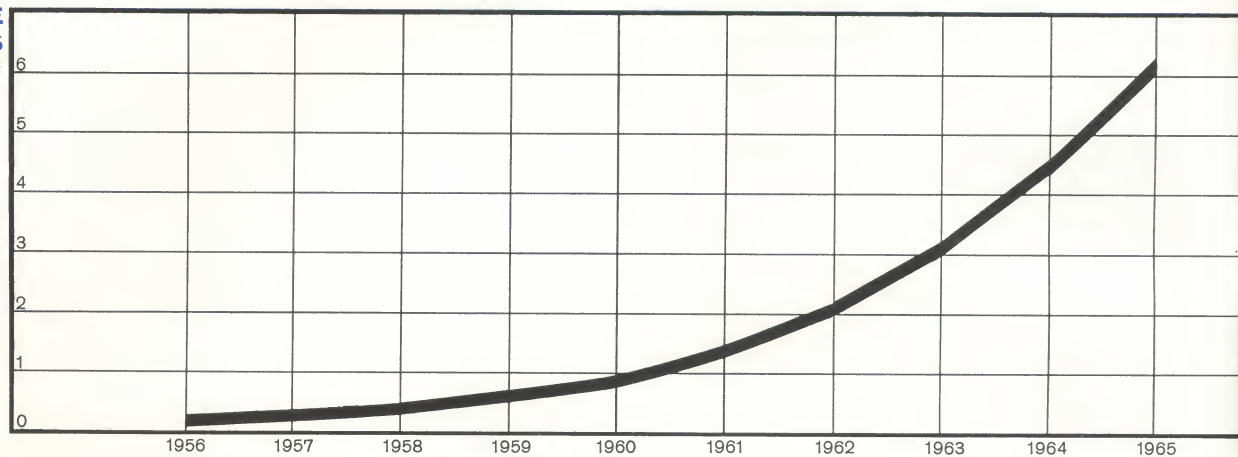
Use of CUC hardware
 Use of CUC brokerage services
 (matching available computer time
 with computer time requirements)

COMPUTER EDUCATION

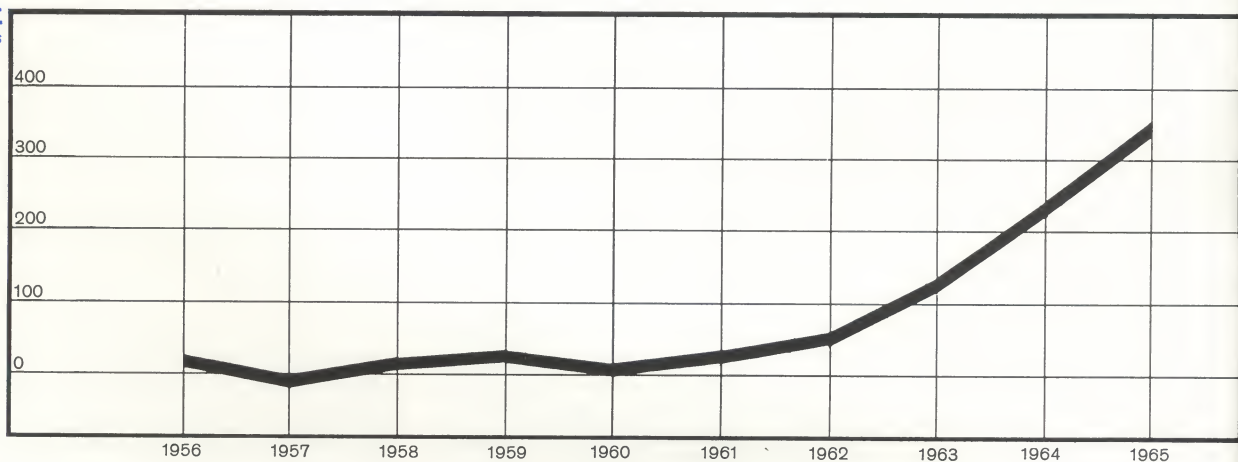
Classes and seminars
 on advanced
 computer usage

A DECADE OF PROGRESS

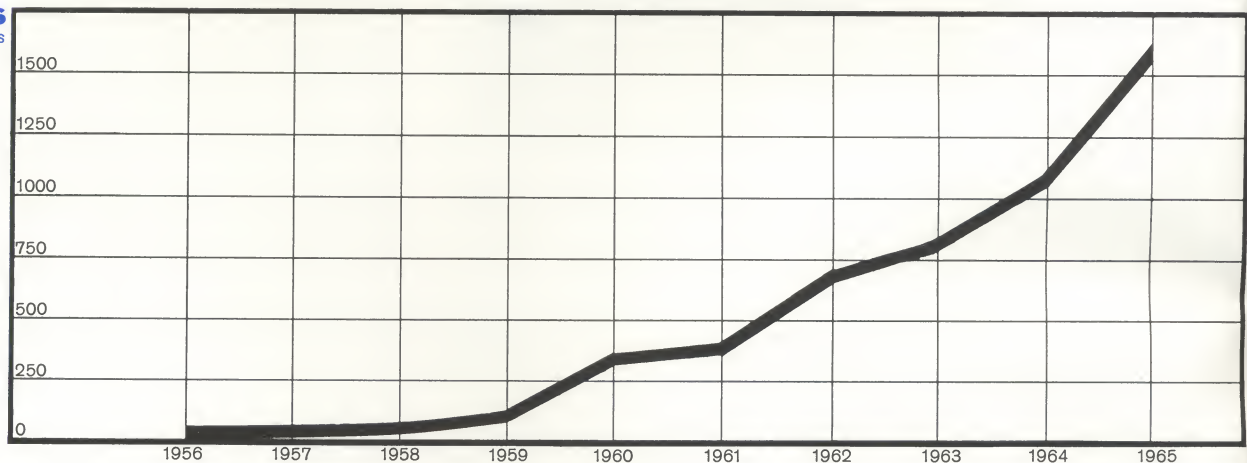
**INCOME
FROM SERVICES**
millions of dollars



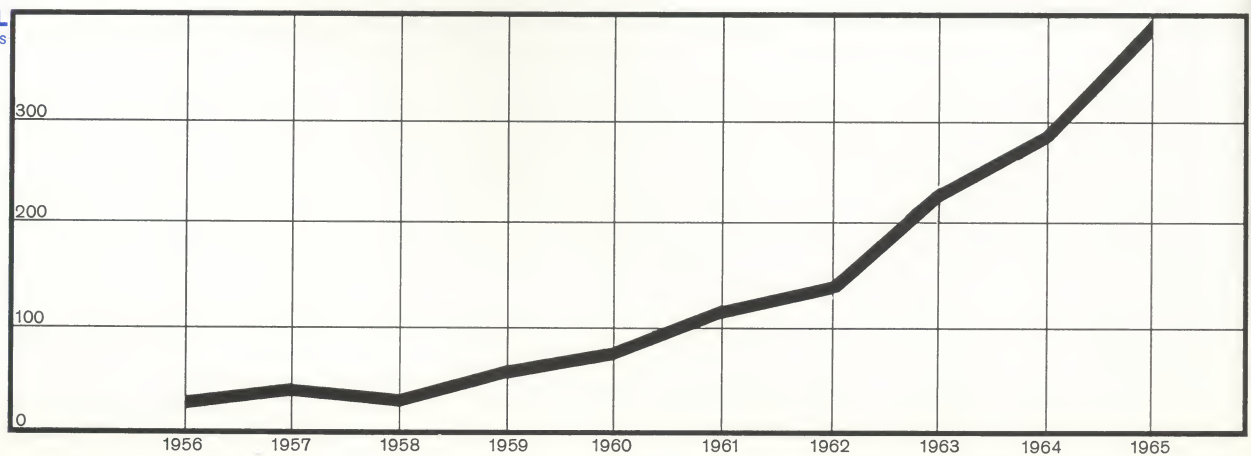
NET INCOME
thousands of dollars



NET ASSETS
thousands of dollars



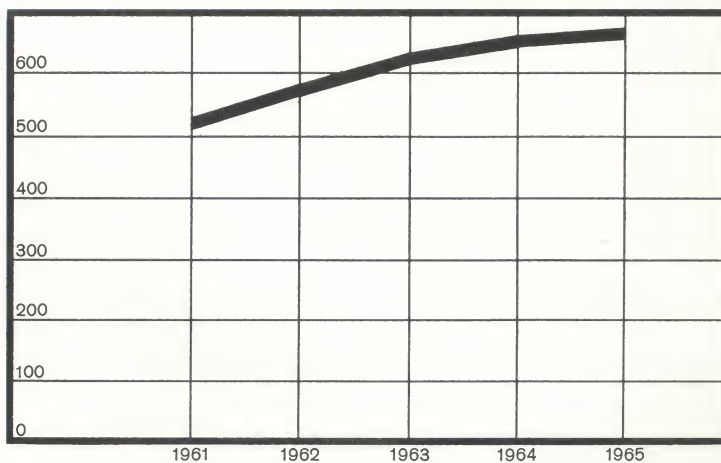
PERSONNEL
number of employees



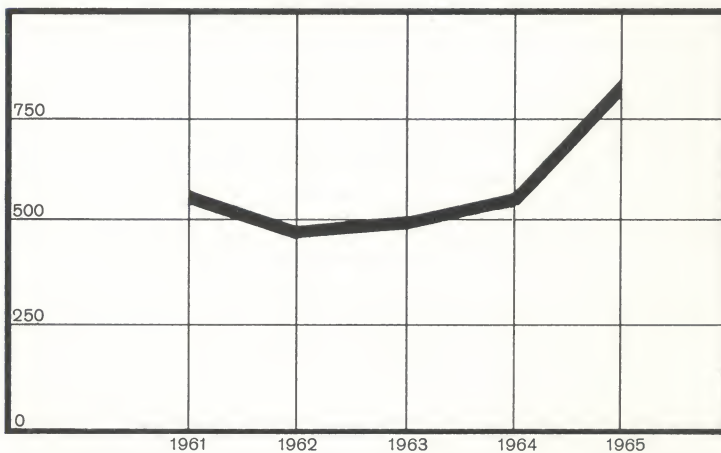


STOCKHOLDERS INVESTMENT

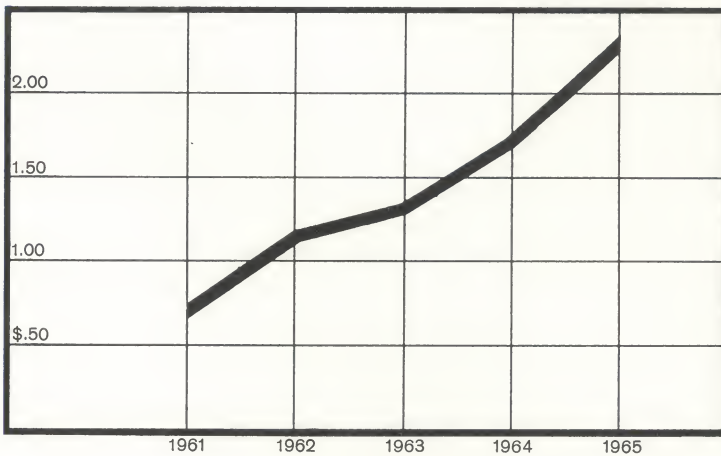
**SHARES
OUTSTANDING**
thousands



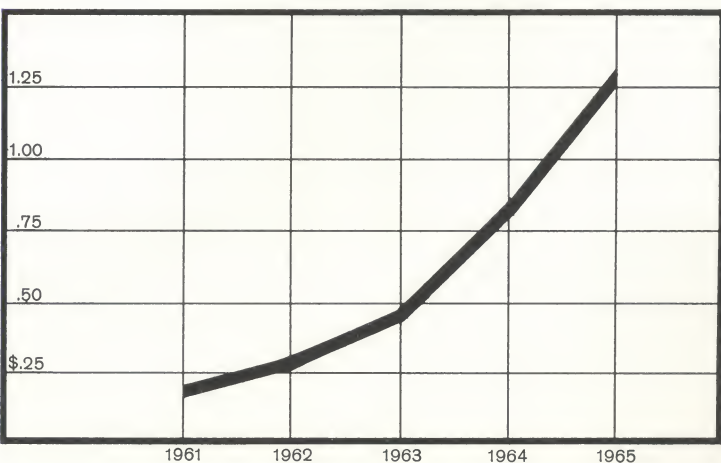
**NUMBER OF
SHAREHOLDERS**



**NET ASSETS
PER SHARE**



**RETAINED
EARNINGS
PER SHARE**



SHARES AND PER SHARE AMOUNTS
JUSTED FOR 5-2 STOCK SPLIT IN JANUARY, 1965)

COMPUTER USAGE COMPANY, INC.**BALANCE SHEETS, September 30, 1965 and 1964**

ASSETS	<u>1965</u>	<u>1964</u>
Current assets:		
Cash and temporary investments	\$ 464,766	\$ 403,726
Accounts receivable	1,600,237	993,877
Contracts in process, at cost	42,474	31,200
Prepaid expenses	58,301	65,257
Total current assets	<u>2,165,778</u>	<u>1,494,060</u>
Office furniture and equipment, at cost, less allowance for depreciation, 1965, \$69,185; 1964, \$49,294	165,036	117,409
Cash surrender value of life insurance	93,808	100,839
Deferred research and development costs	24,973	34,156
	<u>\$2,449,595</u>	<u>\$1,746,464</u>

The accompanying notes are an integral part of the financial statements.

LIABILITIES19651964

Current liabilities:

Accounts payable and accrued expenses	\$ 622,732	\$ 417,847
Accrued federal income taxes	<u>265,907</u>	<u>230,044</u>
Total current liabilities	<u>888,639</u>	<u>647,891</u>

CAPITAL

Common stock, par value 25c per share, authorized 1,500,000 shares; issued and outstanding, 1965, 670,904 shares; 1964, 257,288 shares (Notes 1 and 2)	167,726	64,322
Additional paid-in capital (Note 3)	526,433	512,254
Retained earnings, as annexed	<u>866,797</u>	<u>521,997</u>
Total capital	<u>1,560,956</u>	<u>1,098,573</u>
	<u>\$2,449,595</u>	<u>\$1,746,464</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF INCOME

for the years ended September 30, 1965 and 1964

	<u>1965</u>	<u>1964</u>
Income from services	<u>\$6,033,403</u>	<u>\$4,500,496</u>
Costs and expenses:		
Cost of services	<u>2,756,366</u>	<u>2,088,130</u>
General, administrative and selling expenses	<u>2,612,237</u>	<u>1,943,287</u>
	<u>5,368,603</u>	<u>4,031,417</u>
Income before federal income taxes	<u>664,800</u>	<u>469,079</u>
Federal income taxes	<u>320,000</u>	<u>235,000</u>
Net income	<u>\$ 344,800</u>	<u>\$ 234,079</u>
Earnings per share (based on average number of shares outstanding in each year adjusted for five-for-two stock split) (Note 1)	<u>\$.53</u>	<u>\$.37</u>

STATEMENTS OF RETAINED EARNINGS

for the years ended September 30, 1965 and 1964

	<u>1965</u>	<u>1964</u>
Balance, beginning of year	<u>\$ 521,997</u>	<u>\$ 287,918</u>
Net income	<u>344,800</u>	<u>234,079</u>
Balance, end of year	<u>\$ 866,797</u>	<u>\$ 521,997</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. In January, 1965, the stockholders approved an increase in the authorized common stock of the Company from 500,000 shares to 1,500,000 shares, with no change in par value, and the Company issued 389,616 additional shares in connection with a five-for-two stock split.
2. Under the terms of the Company's employee stock option plan, as amended on May 18, 1964, options to purchase shares of the Company's common stock may be granted to key employees. Options granted prior to May 18, 1964 may be exercised at a price which is not less than 95 per cent of the fair market value of the optioned shares on the date immediately preceding the date of grant; such options are generally exercisable during the three-year period beginning three years after the date of grant. Options granted subsequent to the amendment of the plan may be exercised during the three-year period beginning two years after the date of grant, at a price which is not less than the fair market value of the optioned shares on the date of grant.

In addition to the options granted under the terms of the aforementioned plan, an option to purchase shares of the Company's common stock was granted in a prior year to an officer of the Company. This option may be exercised during the four-year period beginning two years after the date of grant, at a price which is not less than 95 per cent of the fair market value of the optioned shares on the date immediately preceding the date of grant.

Information with respect to the foregoing options as of September 30, 1965 and for the year ended on that date (adjusted, as necessary, to give retroactive effect to the stock split described in Note 1) is as follows:

	<u>Number of Shares</u>	<u>Option Price Per Share</u>
At September 30, 1965:		
Shares under option (expire from 1968 to 1970, aggregate option price \$275,539)	50,300	\$ 2.98 to \$25.00
Options exercisable (expire in 1968)	30,000	2.98
Shares reserved for future options....	9,700	
During the year ended		
September 30, 1965:		
Options granted	3,050	20.75 to 25.00
Options exercised	27,500	3.00 to 4.70

In April, 1960, persons other than officers and employees were granted options to purchase shares of the Company's common stock at \$2.00 per share. During the year ended September 30, 1965, options to purchase 250 shares, representing the remainder of the options outstanding, were exercised (price and number of shares adjusted to give effect to stock split described in Note 1).

(continued)

3. Changes in additional paid-in capital are summarized as follows:

	<u>1965</u>	<u>1964</u>
Balance, beginning of year	\$512,254	\$467,916
Excess of proceeds from sales of common stock sold under option agreements over the par value thereof, 1965, 2,500 shares prior to stock split and 21,500 shares subsequent thereto (Note 1); 1964, 5,900 shares	112,375	44,338
Transfer to common stock of par value of 389,616 shares issued in connection with stock split described in Note 1	(97,404)	
Cash payments in lieu of issuance of fractional shares in connection with stock split	(792)	
	<u>\$526,433</u>	<u>\$512,254</u>

4. The Company leases the premises which it occupies under agreements providing for the payment of aggregate annual rentals ranging from approximately \$210,000 in 1966 to \$101,000 in 1971.

AUDITORS' REPORT

LYBRAND, ROSS BROS. & MONTGOMERY

COOPERS & LYBRAND
IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

2 BROADWAY
NEW YORK 10004

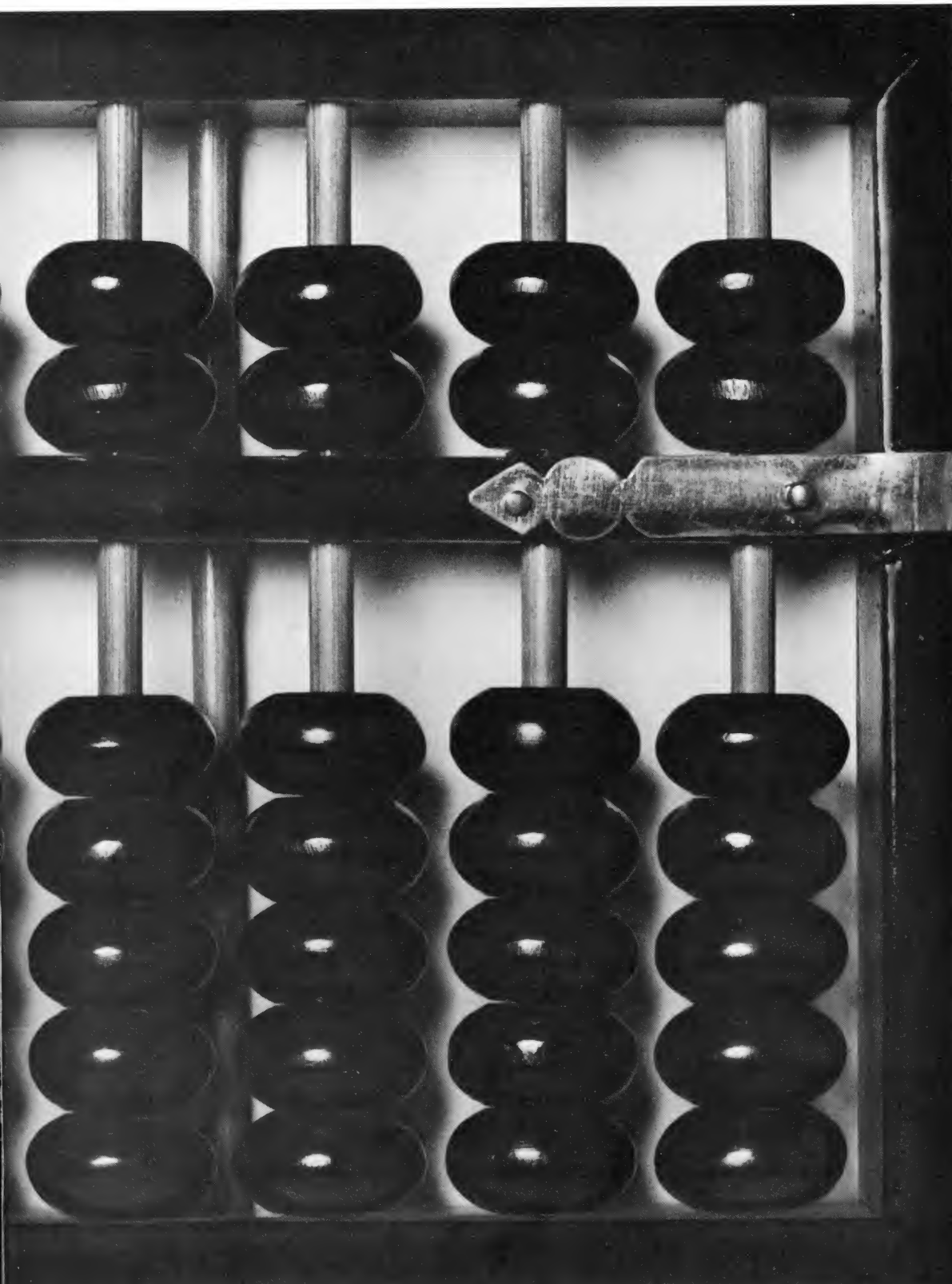
To the Stockholders,
Computer Usage Company, Inc.:

We have examined the balance sheet of COMPUTER USAGE COMPANY, INC. as of September 30, 1965 and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the Company for the year ended September 30, 1964.

In our opinion, the accompanying balance sheets and statements of income and retained earnings present fairly the financial position of Computer Usage Company, Inc. at September 30, 1965 and 1964 and the results of its operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

New York, November 1, 1965.

**BALTIMORE**

1111 Park Avenue
Baltimore, Maryland 21201
Tel. (301) 539-3260

BOSTON

387 Elliot Street
Newton Upper Falls,
Massachusetts 02164
Tel. (617) 969-5840

CHICAGO

200 South Michigan Ave.
Chicago, Illinois 60604
Tel. (312) 427-8934

HOUSTON

3121 Richmond Avenue
Houston, Texas 77006
Tel. (713) 526-3503

LOS ANGELES

6266 Manchester Avenue
Los Angeles, California 90045
Tel. (213) 670-7246

MOUNT KISCO

344 Main Street
Mount Kisco, N. Y. 10549
Tel. (914) 666-6741

NEW YORK

655 Madison Avenue
New York, New York 10021
Tel. (212) 752-5900

NEW YORK - CUE

51 Madison Avenue
New York, New York 10010
Tel. (212) 889-7850

PHILADELPHIA

Barclay Building
City Line & Belmont Aves.
Bala-Cynwyd, Pa. 19004
Tel. (215) 839-4185

SAN FRANCISCO

3181 Porter Drive
Palo Alto, California 94304
Tel. (415) 321-6754

WASHINGTON

7315 Wisconsin Avenue, N. W.
Washington, D. C. 20014
Tel. (301) 656-0200

